ALBERTA GAS TRUNK LINE ANNUAL REPORT 1975

The Alberta Gas Trunk Line Company Limited, a public company, was incorporated in 1954 by a Special Act of the Alberta Legislature. Its corporate objects include to act as a carrier and purchaser of gas, to construct pipelines and plants, to purchase and develop hydrocarbon resources, to engage in manufacturing, engineering and industrial research and development. It is owned by 23,500 shareholders, 99% in Canada; about one half of its common shares are held by Canadian investment institutions and the other half by individual investors across Canada including 15,000 individuals in Alberta. Its preferred shares are also held by Canadian institutional and individual investors.

ALBERTA GAS TRUNK LINE

-Incorporated by Special Act under the Laws of Alberta

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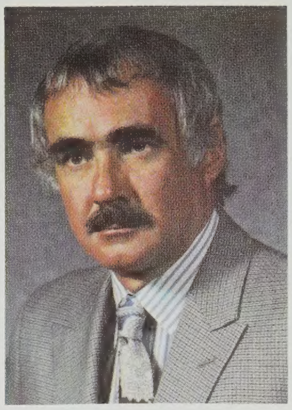
Annual Meeting

The Annual Meeting of the Shareholders of the Company will be held at the Calgary Inn, Calgary, Alberta on May 7, 1976 at 10:30 a.m.

Highlights

FINANCIAL	1975	1974	% Increase
Operating revenues	$140,416,000	$ 89,860,000	56.3
Net income	$ 26,050,000	$ 17,810,000	46.3
Dividends on preferred shares	$ 2,940,000	$ 3,021,000	—
Net income applicable to common shares	$ 23,110,000	$ 14,789,000	56.3
Net income per common share			
Basic	$ 1.08	$ 0.85	27.1
Fully diluted	$ 1.04	$ 0.83	25.3
Dividends paid per common share	$ 0.52	$ 0.445	16.9
Average number of common shares outstanding	21,344,000	17,371,000	22.9
Additions to gas transmission and other plant	$108,306,000	$ 44,255,000	144.7
Investment in plant (cost)	$680,009,000	$578,448,000	17.6
Investment in plant (net)	$558,472,000	$477,539,000	16.9
Average rate base in gas transmission	$449,067,000	$438,411,000	2.4
Average rate of return on gas transmission	9.66%	9.00%	7.3
OPERATING			
Miles of gas transmission pipeline	4,728	4,313	9.6
Compression horsepower	449,417	427,867	5.0
Total gas transmission receipts (MMcf)	1,797,057	1,744,154	3.0
Maximum day receipts (MMcf)	5,692	5,566	2.3
Average day receipts (MMcf)	4,923	4,779	3.0

Report To Shareholders

Broadening the Business Scope

The program of broadening our business scope has continued to show positive results in 1975.

In the petrochemical field we participate through half-ownership in Alberta Gas Chemicals Ltd., in the processing plant at Medicine Hat which is producing chemical grade methanol at its design capacity of 600 tons per day. This plant is of world-scale size so that it can compete with any other producer on the basis of production cost and it has made Canada self-sufficient in the supply of methanol. Alberta Gas Chemicals' twin Methanol 2 plant is under construction and presently over 90% complete. Anticipating future installation, applications for Industrial Development Permits have been made for two additional plants and a public hearing before the Alberta Energy Resources Conservation Board has been held.

Our second petrochemical project has a key role in the huge ethylene and derivative complex planned for central Alberta. Under the leadership of Executive Vice President, Robert Pierce, the role of The Alberta Gas Ethylene Company Ltd., presently a wholly-owned subsidiary, is to be the owner of the primary ethylene production plants in the complex that received general endorsement by the Government of Alberta in September. The application for an Industrial Development Permit to build the first ethylene plant at Red Deer received the recommendation of the Energy Resources Conservation Board in November and authorization of the Alberta Cabinet in January, 1976.

Our role will keep the primary production under Canadian ownership control and under management headquartered in the province which provides the feedstock.

In addition to the ownership of the ethylene production, we have been negotiating to participate in selected derivative manufacturing ventures and benzene manufacture, planned to follow as a companion industry to the ethylene complex.

In manufacturing, assessment by a Vice President, James Kadlec, led to our purchase of the majority ownership of Grove Valve and Regulator Company, a division of Valve Systems International, part of the I.U. International group. The Grove product lines are regarded by our engineers as superior in the world and are presently manufactured in California and Nevada and through licencees in several foreign countries. One intent in this purchase is to establish a future valve manufacturing operation in Canada. Another affiliate, International Portable Pipe Mills Ltd., which we control with Dominion Foundaries and Steel Ltd., had success in manufacturing structural pipe supports for the Alyeska oil pipeline. A new affiliate, Steel Alberta Ltd., jointly owned with the Alberta Energy Company Ltd., took up one of the principal share holding positions in Interprovincial Steel and Pipe Corporation Ltd. of Regina and began a study of more extensive steel rolling and production in Alberta.

Deserving brief mention here as well is preliminary investigation of some manufacturing possibilities based on the considerable production capacities of Alberta's forest regions and operations.

In another aspect of broadening our business scope, we note the organization of Gas Initiatives Venture Ltd., in which our Vice President, Robin Abercrombie, performs as President. The group of Canadian companies which sponsor Gas Initiatives is buying up natural gas properties and assessing the purchase of shares of non-resident companies owning rights to Canadian gas reserves.

Detail of the work of these and other subsidiary or affiliate companies in augmenting future gas supply is summarized in further sections of this report.

In addition to our diversification activities, we added approximately $100 million to gas plant, property and equipment in 1975 and are estimating our 1976 program at $130 million or more. That growth is accelerating for a number of reasons which will probably continue throughout the 1970s. It is worth noting that while plans for future arctic pipelines receive most of the press coverage, and while we have added some arctic grade 42" pipe in our main lines to develop the "hands-on" experience, your Company will also in the next year install some 1,200 miles of gas transmission pipelines and connect some 165 additional points of collection for supply from new Alberta sources.

These activities are to advance the *basic objectives* of the Company as were first described in the 1975 Annual Meeting of Shareholders and are currently defined as:

1. *To continue aggressively the creation of an Alberta-headquartered, Canadian-owned independent company working within the natural*

gas service industry, the petrochemical industry and related manufacturing.

2. *In the gas service industry, to provide comprehensive service for all present and prospective sources of gas in Alberta as to gathering, quality control, measurement, transmission, storage, supply and all related functions.*

3. *In the gas service industry, to also negotiate economical use of the Company's expanded gas plant facilities for transmission of arctic gas.*

4. *In the petrochemical industry to obtain feedstock supply in the province, advance engineering payments and risk capital, develop marketing and investment support energetically, and so contribute fundamentally in leadership of this diversification of the provincial economy.*

5. *To invest in manufacturing particularly that related to natural gas and petrochemical developments, toward improving the supply of materials and equipment, and generally promote the business strength of Western Canada.*

It is practical to recognize that success in these objectives will rely considerably on the energy and character of individuals in management. During 1975 our existing team was reinforced by the addition of Ronald M. Rutherford as Executive Vice President of Foothills Pipe Lines Ltd.; the promotion of Donald G. Olafson to Vice President of our Company, responsible for transmission charges and other service arrangements; the recruiting of James Shutiak as Treasurer of our Company; of E. Alan Ballantyne as a Vice President of Algas Resources Ltd. and the election of G. W. Cameron as President and Chief Executive Officer of our affiliate, Pan-Alberta Gas Ltd.

Looking back, 1975 was also a year in which many units of government and companies in Canada reviewed long term objectives and immediate policies. With our Company's own unique qualities, we hope it is proving to be a determined leader in enhancing Canadian positions, be it in arctic pipelines or petrochemicals.

In the "year of women", we continued some gradual improvement in realizing our opportunity to employ more effectively the abilities of women in our headquarters' offices.

While there is still a long way to go, your Chairman and President particularly acknowledge for 1975 the leadership contributions of the women who are our Manager of Administrative Services, Administrative Supervisor of Land, Supervisor of Word Processing, Chart Accounting Supervisor, President's Office and other executive secretarial teams, and in this list we remember in self defence to include a woman officer of our Company, who, part time, is the executive editor of our annual reports. We salute too the essential technical and supporting work of over one hundred female secretaries, analysts, clerks and technicians at our Calgary offices and district headquarters.

Chairman

President and
Chief Executive Officer

Calgary, Alberta, Canada

March 31, 1976

Gas Transmission Operations

The operations division has started the necessary adjustments in anticipation of the much larger number of points of receipt required because new sources are numerous but individually small. The receipt points in the Company's facilities provide the quality control and the measurement of volumes and values of the gas delivered by producers to our gas transmission customers.

In the 10-year period 1965 to 1974 the average number of new receipt points connected in each year was 18 and the largest number in a single year was 30. A dramatic increase occurred in 1975 as the number rose to 50 and it is estimated that the number of new connections will soar to 165 in 1976. This trend has sharply increased the requirements for trained inspection and maintenance personnel.

In a similar and corresponding trend we are experiencing a substantial increase in required expansion of our service in terms of miles of pipeline installed. During the 1965 to 1974 period we installed on the average 246 miles of gathering and main line pipe per year. In 1975 this figure for pipeline installed or converted was 415 miles and the preliminary estimate of installation for 1976 is 1,200 miles. The operation of these facilities will not be as labour intensive as the receiving points but nevertheless requires this division to anticipate a greater responsibility in its field of operations.

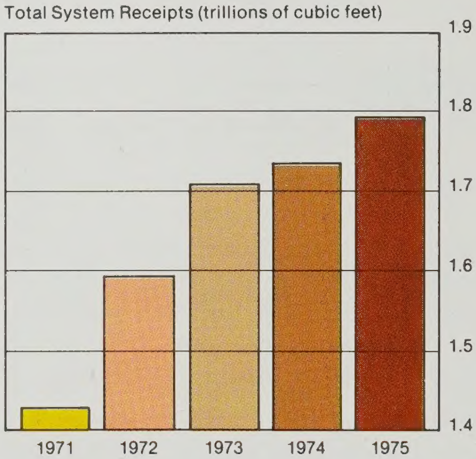
Accordingly the total staff of the operations division increased from 583 persons in 1974 to 659 by the end of 1975 and has budget approval to increase to about 740 in 1976. In personnel this division is the largest in the Company. It comprises approximately two-thirds of the total staff of Alberta Gas Trunk Line itself and its field and headquarter employees are charged with the responsibility of accomplishing the safe and efficient day to day operation of our main business. The division reports to Senior Vice President, William J. Deyell, as does the engineering and construction division.

At the end of 1975 the division operated 288 receiving point stations, 28 delivery point stations, 26 compressor stations and 4,728 miles of pipeline. Its field operations are organized through four regional districts based at Edson, Brooks, Calgary and Vegreville. Its equipment consists of 460 trucks and other highway vehicles, 150 tractors, other crawler vehicles and work equipment and a system of maintenance bases and inspection equipment in locations across the province best suited to the provision of good service to its industry.

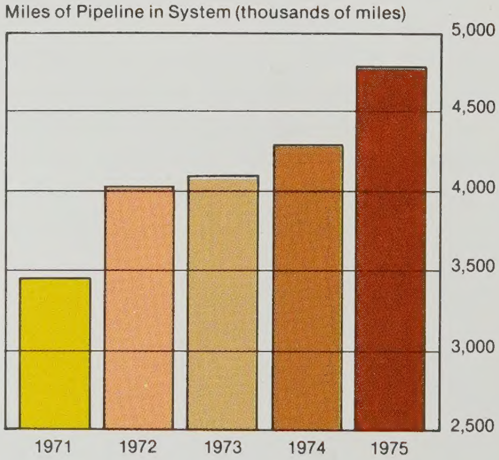
Average daily gas throughput during 1975 was 4,923 MMcf and the maximum day receipt was 5,692 MMcf.

In these terms the company ranks second among all gas pipeline systems in North America.

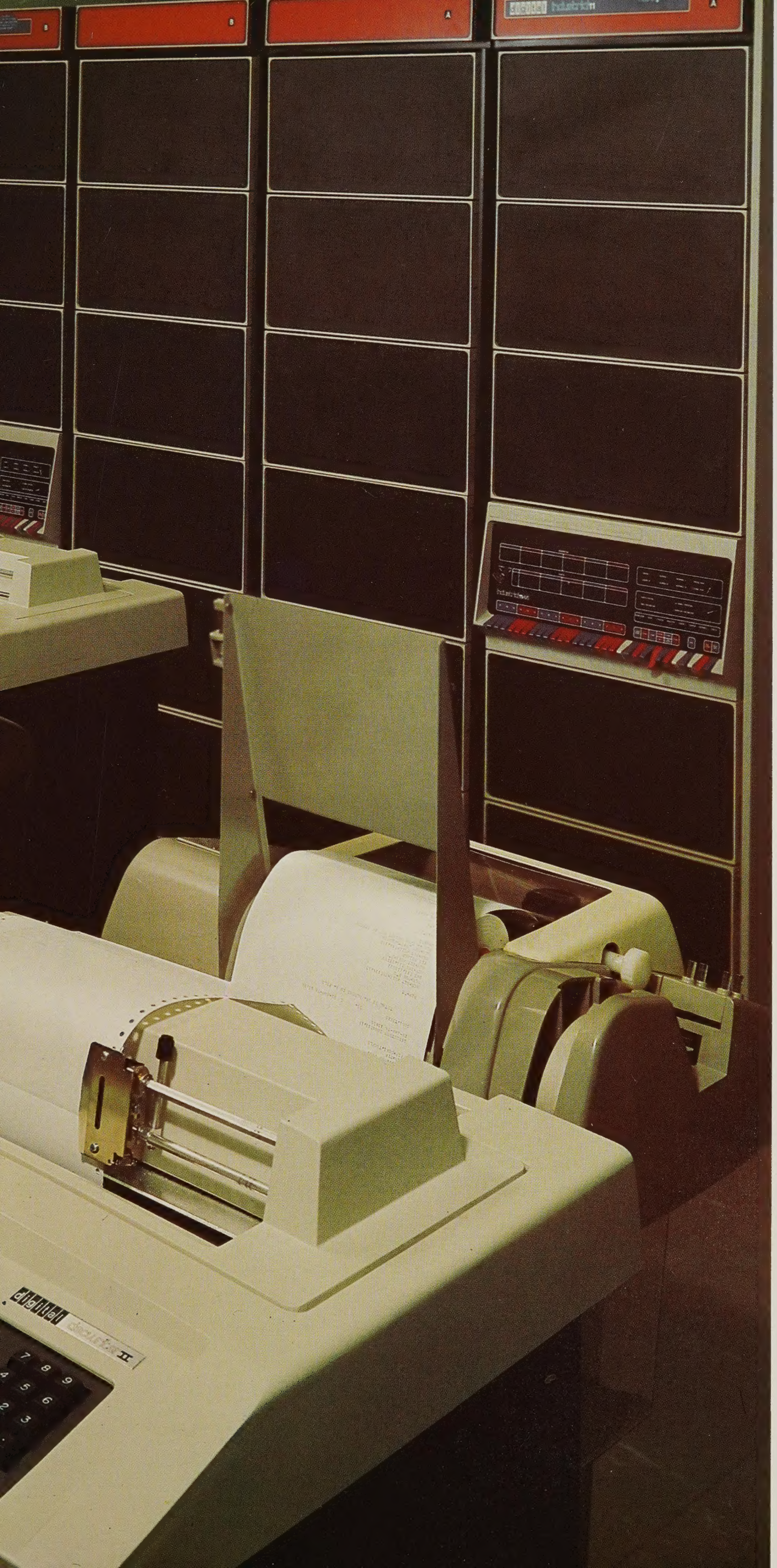
Total System Receipts (trillions of cubic feet)



Miles of Pipeline in System (thousands of miles)



Part of the new dual computer system being installed at the gas control centre to provide a broader range of pipeline operations information.



Gas Transmission Engineering and Construction

In 1975 a record number of gas transmission projects were designed and given construction management by our engineering and construction division.

Fifty meter station projects were completed at points throughout the province where gas is received from new sources or delivered to customers. Our stations include equipment for reporting and controlling quality of the natural gas stream as well as its measurement. Additions and modifications were completed at an additional twenty-one meter stations. The total capital cost of these relatively small but intricate and important installations in 1975 was $5.6 million.

In gathering systems, 53 miles of pipe was installed in diameters of 2″ to 6″ and 122 miles of 8″ to 12″. As indicated by the large number of new meter stations the Company is finding that a characteristic of the current development of Alberta's gas supply is the connection of numerous but relatively small individual sources. This requires greater engineering and construction management effort per unit of capital invested.

A welder in the district shop cuts pipe to specification.

In main line transmission pipelines, 240 miles of pipe was installed in diameters ranging from 16'' to 42''. The most prevalent sizes this year were 20'' and 24'', and these were used to extend the range or to increase the capacity of the regional main lines that carry gas from the individual field laterals down to the principal system main lines. The total capital investment in gathering and main line additions in 1975 was $67.6 million.

In compressor stations, design was completed and construction commenced on three compressor stations containing four compressor units and the addition of one new unit to each of three existing compressor stations at a total capital investment of $14.3 million. We also purchased two large natural gas compressor sets for future installation at a total installed cost of $4.5 million. One of these is the first 10,000 HP Solar Mars compressor set. It is part of a new generation of compressor sets designed for high thermal efficiency. Our engineers have performed extensive studies that indicate these sets are capable of achieving savings in fuel gas and servicing costs sufficient to warrant their substitution for some older equipment in service.

The other unit is a packaged 12,500 HP compressor set purchased from Dresser Clark Division, Dresser Industrial Products Ltd., that with encouragement from our Company was assembled at their new manufacturing facility at Lethbridge, Alberta.

In 1975 the division also proceeded with substantial repair to the 20'' Peace River main line, purchased and converted from oil pipeline service in 1971 and found to have localized corrosion as a result of not receiving cathodic protection prior to our purchase. As a matter of practice all our new pipelines are provided with cathodic protection from the time of installation. Cost of repairs to the Peace River line in 1975 was about $2.6 million in a program to be completed in 1976.

The engineering and construction division also performed other pipeline construction and testing, compressor modifications and maintenance shop projects to a total cost of $1.5 million.

The company placed 4 miles of 42'' arctic grade pipe in service in the southeast area of the province.

In 1975, the Company continued the general practice of performing the engineering design and construction management of its gas transmission projects with its own employees. Most construction is performed by contractors. A small Company ''Works Department'' undertakes the majority of short lateral and meter station construction, some rush or highly specialized construction and all work requiring direct contact with our gas lines operating under pressure.

System design proceeded for future facilities to transport arctic gas across the province of Alberta with a total deferred investment for this purpose in 1975 of $2.0 million.

Another principal engineering, construction and management responsibility was the installation of 231 miles of high pressure steel, aluminum and plastic transmission pipe lines within the rural gasification program currently conducted under the auspices of the Government of Alberta to provide gas supply to rural cooperatives throughout the province.

One event deserving particular comment was the installation of 4 miles of 42'' main line using pipe to the exact specification established for the Foothills Pipe Lines' portion of the Maple Leaf project for the future transmission of gas from the new sources being developed in the Mackenzie Delta area. It is anticipated that another 6 miles will be installed in northern Alberta in 1976. Pipe of this grade has been purchased from two of our established Canadian suppliers and has been deliberately installed in advance to provide actual experience now in its bending, welding, laying, testing and operation, well before the years when final commitments to the considerable investment in the project will be made. The Maple Leaf project supports the use of materials made in Canada and those in which there is industry experience, both as a matter of the good politics of providing major production runs for Canadian manufacturers and also as prudence in projecting a new economic climate and environment.

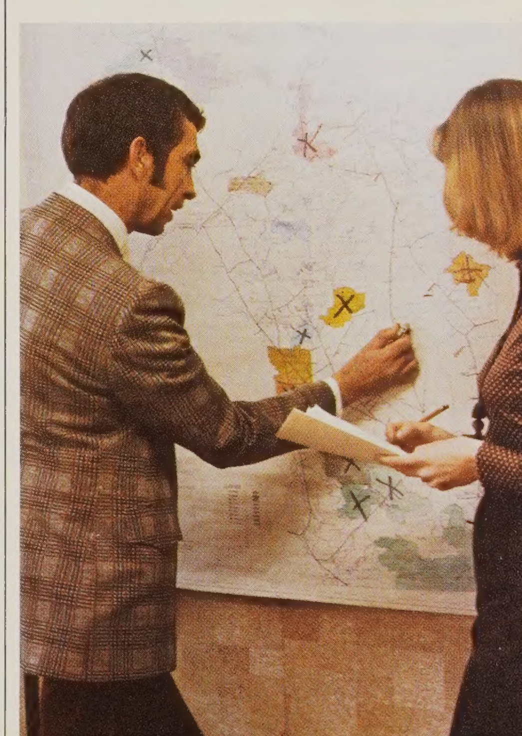
Gas Development

Other Gas Activities — Alberta and Northwest Territories

In this section we will describe briefly the Company's activities, through subsidiaries and affiliates, in those areas directly related to the gas industry in Alberta and the N.W.T. Whatever the particular area of interest for each company described, they all have the common goal of assisting in the development and increase of conventional gas supply in Alberta and encouragement of the connection of frontier reserves in the Mackenzie Delta when it is timely to do so.

Pan-Alberta Gas Ltd. (50% owned)

Under the leadership of G. W. (Scotty) Cameron, as President and Chief Executive Officer, Pan-Alberta continues to make its presence felt in the gas industry by maintaining a competitive force in gas buying and marketing in Alberta. It presently delivers 40 MMcfd of natural gas to Quebec through a contract with Gaz Metropolitan, inc. of Montreal, and as well delivers up to 60 MMcfd to Westcoast Transmission Company Limited of British Columbia, to help Westcoast make up some of its deficiency of supply to Northwest Pipe Corporation in the Pacific Northwest area of the United States.



Al Postlethwaite and Betty Klukas examine a map showing some of the areas of pipeline construction.

Algas Resources Ltd and Algas Mineral Enterprises Ltd. (100% owned)

The original objective of these companies was to acquire, develop and produce gas reserves in Alberta.

In 1975 Algas Resources Ltd. sold some 80 Bcf of acquired gas reserves to Alberta Gas Chemicals Ltd. as feedstock for its second methanol plant at Medicine Hat, Alberta.

Algas Mineral Enterprises Ltd. now owns estimated net gas reserves after royalty of 34 Bcf located in the Bantry, Cessford, Chisholm, Clive, Halkirk, Holburn, Patricia and Tide Lake areas of Alberta. Part of these reserves result from being a partner (33⅓ %) and operator of Gas Initiatives Venture Ltd.

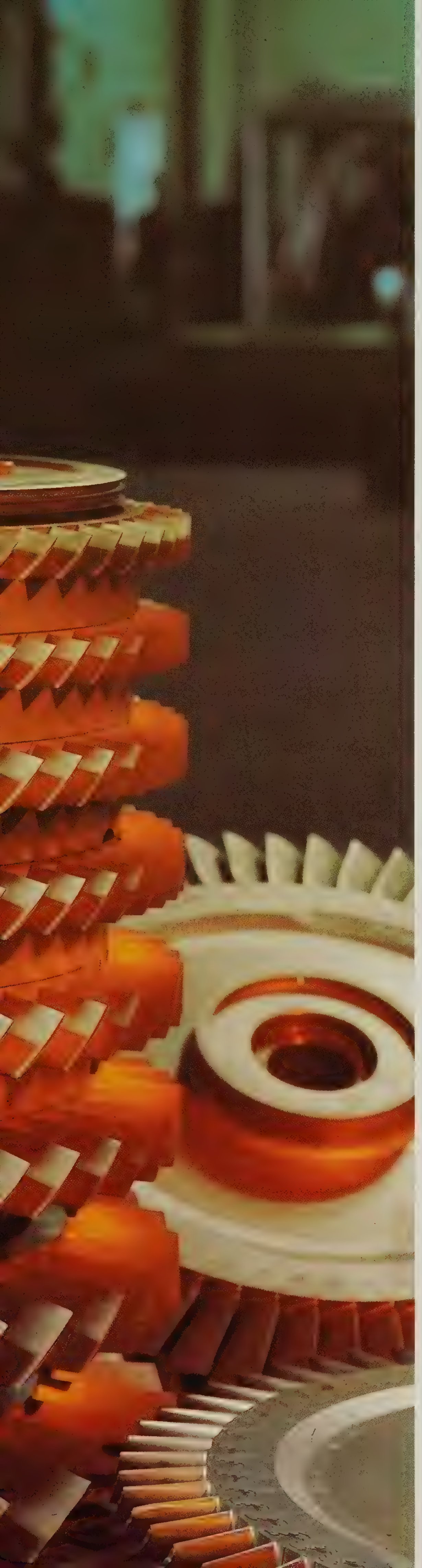
Early in 1976, two new officers joined these companies and a reorganization has taken place which will move all gas acquisition, development and production activities into Algas Mineral Enterprises Ltd., under the management of Donald R. Jepson as Vice President of Production for that company. Among the responsibilities of Mr. Jepson's group will be the complete development of the Alberta Gas Chemicals' Princess reserves under an agency agreement with the chemical company.

Algas Resources Ltd., under the direction of E. A. Ballantyne, Vice President, will take on the responsibility for AGTL and subsidiaries, of studying the feasibility and research into new sources of energy and technology related to the resource industry. Mr. Ballantyne and a small staff, designated as the Resource Development Group, will shortly be commencing studies, with other companies and/or agencies, on coal gasification, recovery of methane from coal beds and such other projects it believes should be given priority consideration.

Gas Initiatives Venture Ltd.

In May 1975, a joint venture was formed by Algas Mineral Enterprises Ltd. and the Société Québécoise d' Initiatives Petrolières (SOQUIP). The

A section of turbine is displayed for inspection. Turbines are the predominant type of power used in gas compression.



original two partners were joined recently by Many Islands Pipe Lines Limited, a subsidiary of Saskatchewan Power Corporation, and each party in the joint venture holds an equal 33⅓ % interest with the obligation of advancing $5 million each over the next 3 years for the purpose of acquiring and producing natural gas reserves in areas tributary to the AGTL main line system and to a pipeline connection to the Mackenzie Delta. In addition to the funding advanced by the partners, the joint venture will obtain other funds through bank borrowings.

In July, the joint venture purchased all Canadian properties of Hytech Energy Corporation (formerly Western States Producing Co. of Midland, Texas). These assets represent in large part natural gas reserves located in central and southern Alberta. Proven and probable gas reserves thereby controlled are estimated at 60 Bcf. Other prospective purchases are being investigated daily by the joint venture and gas so acquired by it will be used, in the case of SOQUIP, to supply Quebec markets, in the case of Many Islands Pipe Lines Limited, for Saskatchewan markets and, in the case of Algas, to support AGTL as a long term supplier of gas to its operations and off-line sales. Algas Mineral Enterprises Ltd. is the operator of this joint venture.

Foothills Pipe Lines Ltd. (80% owned)

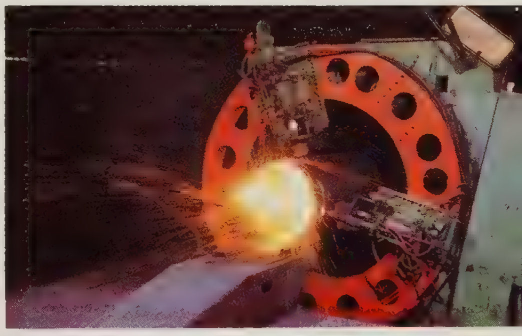
AGTL, together with its partner, Westcoast Transmission Company Limited, continues to advance its application with the National Energy Board for a pipeline to run from inside the 60th parallel to the Mackenzie Delta area to connect Canadian frontier gas reserves and move them to markets in Western and Eastern Canada. The Foothills Pipe Lines' proposal is for 817 miles of new 42'' arctic grade pipeline in the Northwest Territories which would deliver frontier gas to the expanded systems of Westcoast Transmission Company Limited, The Alberta Gas Trunk Line Company Limited and TransCanada PipeLines Limited.

At the time of writing this report, the hearings before the National Energy Board are in Phase III, examining the details of engineering design and construction. It is anticipated the hearings will continue through 1976 with a government decision on the National Energy Board recommendation expected sometime in mid or late 1977.

In addition to the National Energy Board hearing, the Hon. Mr. Justice Thomas Berger is continuing his inquiry in the N.W.T. on the effects a major pipeline project will have on the delicate social, economic and environmental aspects of that area. Your company favors the full and complete examination of these issues by Mr. Berger and the opportunity it provides to local residents to express their concerns and desires.

Foothills Pipe Lines' ''application stage'' team is being led by Ronald M. Rutherford, Executive Vice President, John K. Burrell, Richard Littledale and Edwin A. Mirosh, Vice Presidents, Reginald J. Gibbs, General Counsel, and other executives in the specific areas of engineering, operations and northern development. That project company presently has a full time staff of 50 persons and a budget of approximately $5 million for 1976.

We believe that the construction of any northern pipeline cannot reasonably be expected to commence before 1979 or later, pending receipt of all final regulatory approvals, settlement of land claims issues in the Mackenzie Delta and the culmination of satisfactory financing. Accordingly there is a real responsibility on the part of the Company and Westcoast Transmission Company Limited, as the owners of Foothills Pipe Lines Ltd., to ensure that project costs are kept reasonable over the next couple of years while continuing to advance what we believe is the best proposal both from a technical and political point of view in Canada.



The IPPM plant produced a portion of the support system for the Alyeska pipeline.

Manufacturing

Introduction

In its diversification program the Company has become interested in manufacturing opportunities, particularly as related to the oil, gas and chemical industries. Described below are some companies performing that role for us.

Grove Valve and Regulator Company (75% owned)

In July 1975, the company completed the purchase of all properties of the Grove Valve and Regulator Division, headquartered in Emeryville, California, from Valve Systems International, a division of I.U. International Corporation. The Company and Grove's senior management purchased the assets jointly, with AGTL acquiring a 75% majority interest through a new wholly-owned Delaware subsidiary, A. G. Industries International Inc.

Grove Valve is a manufacturer of gate and ball valves for gas and oil transmission and chemical industries, and of regulators and related products for the space and nuclear industries. Its main plant and headquarters are located in Emeryville, and a new plant was opened in mid-1975 in Reno, Nevada, to take over some of the Emeryville product line and thus allow expansion of its operations. Grove has been moving rapidly into other countries and has marketing outlets and/or licencees in South America, Europe, Asia and the Middle East.

Our interest in ownership of Grove included the securing of technology and management expertise to establish in the future a manufacturing operation in Western Canada for supplying major Canadian projects such as arctic gas and oil pipelines, as well as some off-shore projects.

For the six months ended December, 1975, Grove Valve contributed approximately $1.2 million to the Company's consolidated earnings. The contributions from a full year of operation are expected to have a larger impact on revenues for 1976.

Unfinished ball valves surround the machinists responsible for production.

International Portable Pipe Mills Ltd. (48% owned)

This company was originally formed in 1970 to build and test a prototype portable pipe mill. The mill accomplished an experimental run of 48'' pipe and a successful production run of 42'' pipe, but having regard to relatively high and idle pipe production capacity of other mills, IPPM's mill was placed in storage in 1974 pending decision on its future location or application.

During 1975, IPPM successfully bid for a portion of the order to manufacture 18'' and 19'' structural steel supports for the Alyeska oil pipeline and leased the Big Inch pipe rolling mill in Calgary to perform that contract. These supports have now been manufactured and delivered to Alyeska. IPPM realized an operating profit from this order, which was applied to eliminating most of that company's bank debt and was not taken up in the consolidated earnings of AGTL in 1975.

Steel Alberta Ltd. (50% owned)

Steel Alberta Ltd. was formed in 1975 by AGTL and The Alberta Energy Company Ltd. and at present its only asset is 20% ownership in the shares of Interprovincial Steel and Pipe Corporation of Regina, Saskatchewan. Through the contribution to earnings from its IPSCO ownership, Steel Alberta has contributed approximately $1 million to AGTL's 1975 consolidated net income.

The objectives of Steel Alberta are to promote activities and development within the steel industry in Alberta and its Board is presently considering a number of projects in which it may participate in the future.

Methanol #2 nears completion during the winter of 1975 - 76.

Petrochemicals

The largest new business venture being sponsored in Alberta in these years is the establishment of a fully-integrated petrochemical industry which would use the Province's ethane supply as feedstock for the manufacture of ethylene, a basic building block of the petrochemical industry, and the reforming of condensate into benzene and a range of co-products including gasoline. The Company's prime interest is to see through itself or a subsidiary, that a sound project is put in place.
The first half of 1976 is most important to the start of this industry in the Province and all participants in the complex are concentrating on bringing the critical elements together.

In other petrochemical developments in the Province, the Company is presently participating in the manufacture of methanol and exploring its future up-grading here.

The Alberta Gas Ethylene Company Ltd. (100% owned)

The Alberta Gas Ethylene Company Ltd., is a sponsor in the development of a world scale petrochemical complex in Alberta. The integrated petrochemical complex will involve the extraction and gathering of ethane, its conversion to ethylene, storage and transportation of ethylene, upgrading of ethylene into derivative products within Alberta and the export from Alberta of any surplus ethane and ethylene. Alberta Gas Ethylene, Dow Chemical of Canada Limited and Dome Petroleum Limited presently are participants in various phases of the proposed complex.

As one phase of the petrochemical complex, Alberta Gas Ethylene is proceeding towards the construction, ownership and operation, of a proposed 1.2 billion pound per year ethylene manufacturing plant to be located near Red Deer, Alberta. It is proposed that ethylene from the plant will be sold under cost of service take or pay contracts. Alberta Gas Ethylene made application to the Energy Resources Conservation Board of Alberta for an Industrial Development Permit to use ethane as a feedstock and natural gas as a fuel in connection with the plant. Hearing of the application was concluded in June, 1975. In its report to the Lieutenant Governor-in-Council dated November 1975 the Board indicated that it was prepared to grant such permit and in January of 1976 the appropriate approval was received from the Alberta cabinet.

Before construction and operation of the ethylene plant can commence, negotiations for feedstock must be completed, suitable financing of both equity and debt must be arranged and further governmental authorizations and approvals must be obtained for other integral parts of the total complex.

To the end of December, 1975, the company has invested approximately \$6.5 million in the study and development of this project.

Alberta Gas Chemicals Ltd. (50% owned)

This company, owned equally by AGTL and Allarco Developments Ltd. of Edmonton, has constructed one 600 ton per day methanol plant and has its second plant (a twin of the first) near completion and expected to be on stream in April of 1976. In addition, AGC has applied for an Industrial Development Permit for the construction of two more plants, each with a capacity of 600 tons per day and is looking into ways in which it can participate or lead in the up-grading of methanol to finished products within the Province.

All plants, present and proposed, are located in Medicine Hat, Alberta.

Methanol plant #1 went on stream in the spring of 1975 and it has contributed slightly over \$1 million to AGTL's consolidated net income for 1975. Future earnings contribution from Methanol #1 are expected to be larger than 1975 as that year included the start up period, some equipment adjustments now completed and write-offs out of the year's methanol profits of preliminary expenditures incurred in investigating manufacture of other chemicals.

One-third of the production from this plant was sold for export on a take-or-pay contract for five years while the balance is being sold on the Canadian market. Feedstock supply is being obtained from the City of Medicine Hat on a long term basis.

Methonal #2 has sold one-third of its production on a short term contract which will cover its debt service. Feedstock for this plant has been purchased from Algas Resources Ltd.

The final construction cost of Methanol #1 was approximately $20 million and Methanol #2 is estimated at approximately $28 million.

Intricate pipe systems frame one of Methanol #1 distallation towers.

General Corporate Activities

New Logo

As depicted on the cover, the Company has adopted a new logo that we hope will better fit its changing activities and image. The design contains the four major elements in our operations.

The overall triangular shape is that of an 'A' for Alberta. The outside shape is the stylized edge of a beaker, representative of the Company's petrochemical interests. The floating circular shape is the end of a pipe inside the natural gas flame, symbolic of our involvement with this natural resource.

The original idea for the logo came in response to a contest open to all employees. The winning design was further developed by a professional design firm. Work is currently underway to introduce the symbol into all areas of corporate indentification.

Corporate Responsibility

The Company, through its resource of people and money, continues to participate in many ways in community projects, with emphasis being placed by priority on Alberta, western Canada, the north and nationally. Our program of community meetings has strengthened our contact with Alberta residents and has enabled us to give assistance to local projects.

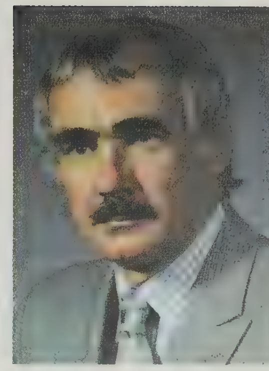
Through a very flexible donations policy, we are also able to provide assistance to organizations who find themselves in urgent need of seed money or interim financing while awaiting grants.

In 1975, the City of Calgary celebrated its centennial and we participated by providing $100,000 to the Calgary Zoological Society for a permanent home for the Gibbon primates, a favourite exhibit of children. Construction is scheduled to get underway in the spring and a group of Company employees have formed a committee to work with the zoo on the project.

Aerial view of the proposed zoo redevelopment project

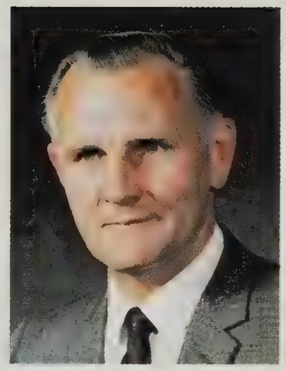
Board Of Directors


H. J. Sanders Pearson


S. Robert Blair

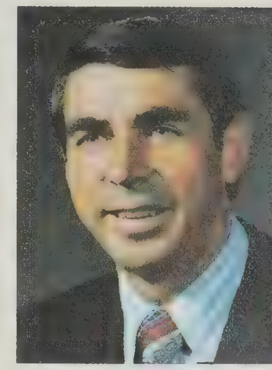

J. Edward Baugh

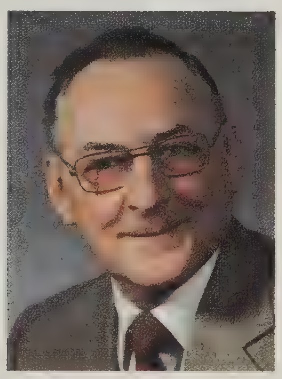

Arthur J. E. Child


William J. Deyell


Harold A. Irving


Peter L. P. Macdonnell, QC

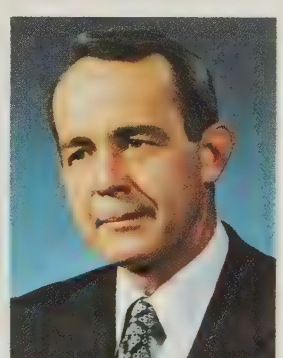

John R. McCaig


Frederick A. McKinnon


L. Merrill Rasmussen


Daryl K. Seaman

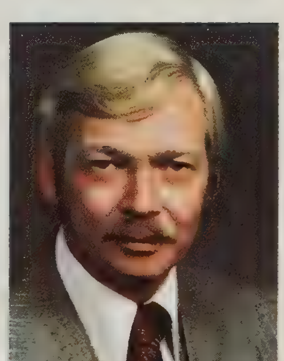
Other Officers

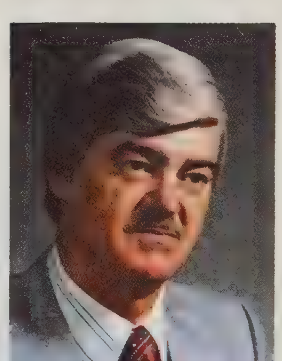

Robin J. Abercrombie


Douglas R. Hagerman


James D. Kadlec

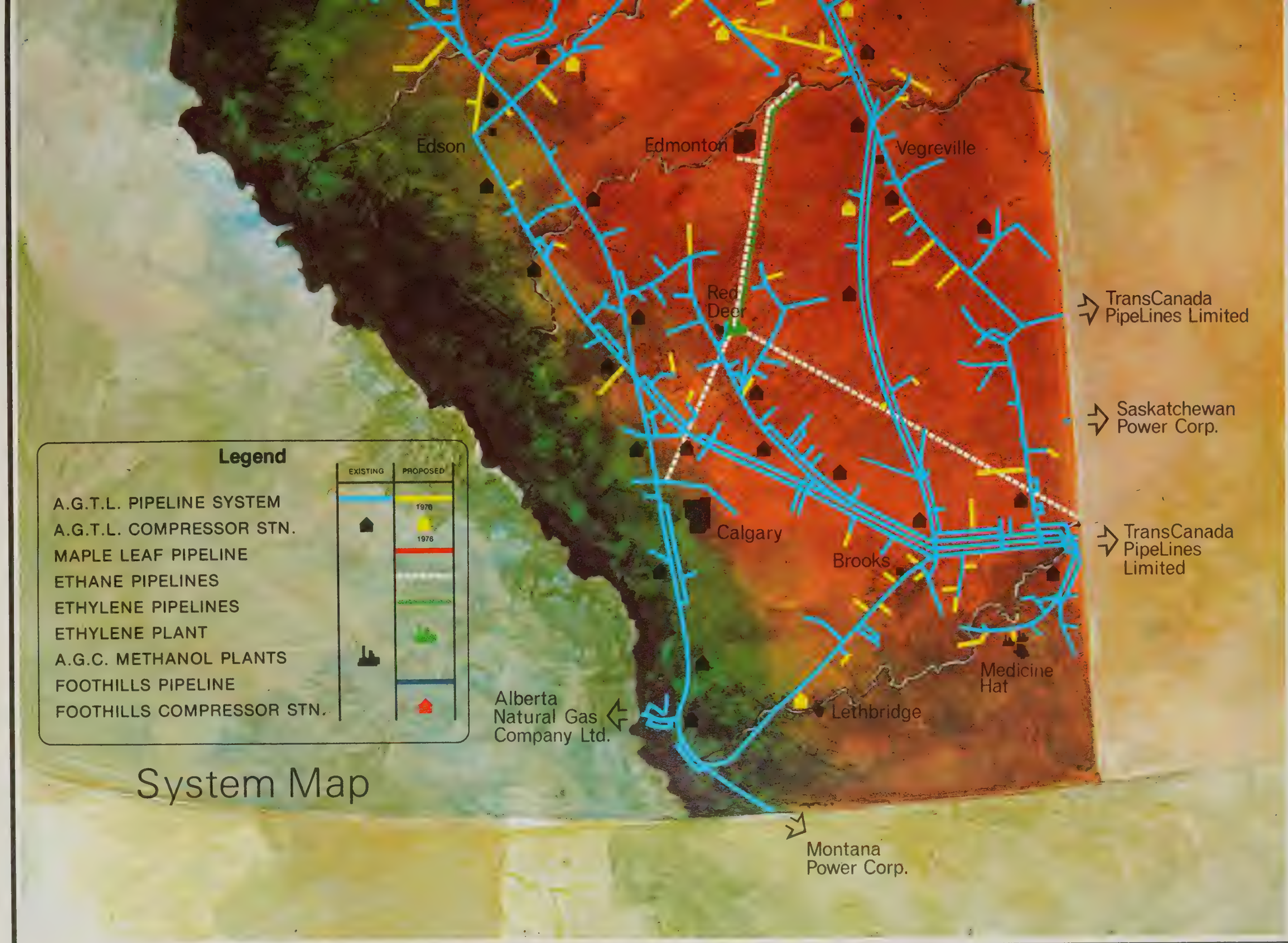

Dianne I. Narvik


Donald G. Olafson

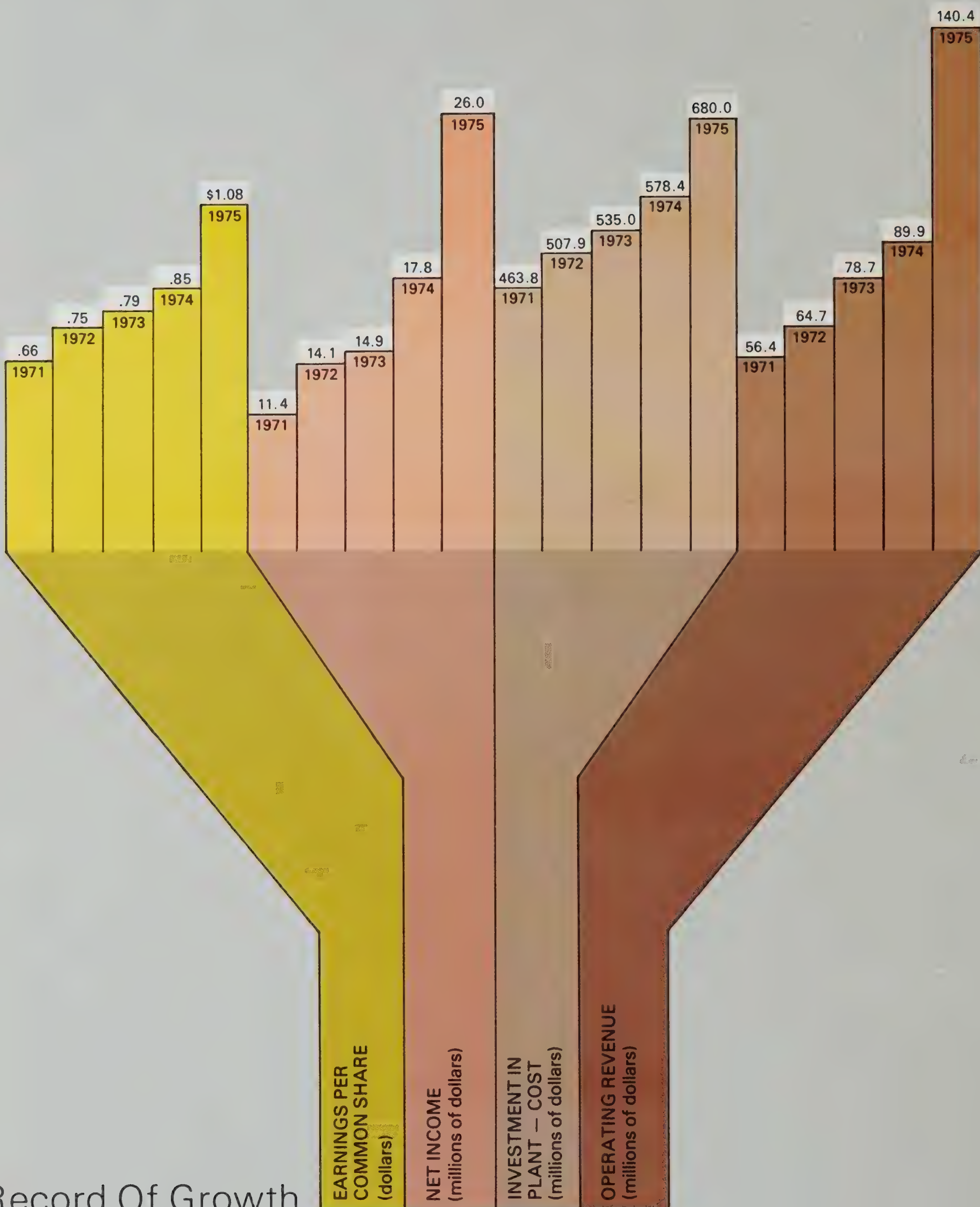

Robert L. Pierce, QC


James Shutiak

The inset map is of the proposed Maple Leaf Pipeline route in the Northwest Territories.



System Map
Legend
EXISTING
PROPOSED
A.G.T.L. PIPELINE SYSTEM
A.G.T.L. COMPRESSOR STN.
MAPLE LEAF PIPELINE
ETHANE PIPELINES
ETHYLENE PIPELINES
ETHYLENE PLANT
A.G.C. METHANOL PLANTS
FOOTHILLS PIPELINE
FOOTHILLS COMPRESSOR STN.
1978
1976
Edson
Edmonton
Vegreville
Red Deer
Calgary
Brooks
Medicine Hat
Lethbridge
TransCanada PipeLines Limited
Saskatchewan Power Corp.
TransCanada PipeLines Limited
Alberta Natural Gas Company Ltd.
Montana Power Corp.



Record Of Growth

Financials

Over 200 female employees of the Company work in a wide range of professional and support positions.

Financial Review

Diversification

For the first time in its history, the Company recorded significant income from diversification in 1975, with subsidiaries and affiliates generating pre-tax profits to the Company's interest of $5.3 million compared to about $400,000 in 1974. The Company follows the full tax allocation basis of recording income taxes on income from all operations other than gas transmission and, as a result the reportable profits for 1975 were $3.1 million after deduction of $1.0 million in deferred income taxes (the payment of which may be indefinitely postponed) and $1.2 million in current cash taxes.

The contribution to earnings from diversification is expected to increase in 1976 due to a full year's operation of the first methanol plant and to the start-up of the second methanol plant in early spring by Alberta Gas Chemicals; and a twelve month contribution from Grove Valve, acquired on July 1, 1975.

Earnings

Operating revenues increased to $140.4 million compared to $89.9 million in 1974, primarily as a result of diversification activities. Major reasons for the increase were the consolidation of manufacturing revenues from Grove Valve for a six month period ($21 million), and a full year of sales revenues for Pan-Alberta Gas ($12 million) from gas deliveries which commenced late in 1974. Higher revenues were also realized from gas transmission ($14 million) arising from increased operating costs and depreciation.

Net income before income taxes was $35.2 million, up from $24.1 million in 1974. After providing $9.2 million in current and deferred taxes, net income for the year was $26.1 million, compared to $17.8 million last year.

Earnings per common share rose to $1.08 based on an average of 21.3 million common shares outstanding during 1975 compared to $0.85 per share in 1974 on a smaller average of 17.4 million shares outstanding.

Capital Expenditures

A total of $100.1 million was spent for gas transmission system expansion to serve our customers in 1975 compared to $31.4 million last year. These expenditures were primarily related to additional main lines, expansion of laterals, meter stations and compressor equipment, and represented the largest annual expenditure program for gas transmission facilities since the Company was formed in 1954.

Manufacturing facilities of Grove Valve in California were acquired mid-year at a cost of $6.1 million, excluding associated working capital, and $2.6 million was incurred for the purchase of patents and licenses covering the valve products manufactured by Grove.

An additional $17 million was invested in other growth programs of which $6.2 million represented the acquisition of interests in or advances to affiliates, principally the purchase of 50% of the shares of Steel Alberta, $0.7 million was for common shares of the Alberta Energy Company Ltd., $5.5 million represented additional costs of advancing the Company's role in transporting natural gas from the Mackenzie Delta, and $4.2 million was invested in the development of a major petrochemical complex in Alberta.

A further $1.8 million was utilized in the year for the purchase of natural gas reserves in Alberta as part of a continuing program of acquisition and development of such reserves.

Net New Funds

An aggregate of $154 million of net new funds was generated or arranged in 1975. Of the total, $54 million was generated from operations, an increase of $16.3 million over 1974, and $100 million came from external sources, excluding conversion of convertible securities, principally from the issue of long term debt of $93 million. Another $6.4 million came from the transfer of interests in natural gas properties, acquired in 1974, to an affiliated company.

In July, $60 million of 11-3/8% sinking fund debentures were sold publicly at par, net proceeds to the Company after issue costs being $58.7 million. Term bank loans of $18.7 million, other loans of $9.2 million and long term lease obligations of $5.2 million accounted for the balance of external funds arranged in the year.

An additional 396,000 common shares were issued in 1975 for a consideration of $3.9 million, on the partial conversion of the Series D Convertible Preferred Shares and the 7-1/2% Sinking Fund Debentures, Series 1, and on the exercise of stock options.

Dividends

Dividend payments to the Company's common shareholders aggregated $11.1 million during 1975, based on a quarterly dividend rate of $0.13 per share for the Class "A" shares in effect throughout the year.

Rate of Return

Effective November 1, 1975, the rate of return included in gas transmission charges by the Company was increased from 9.5% to 10.375%. The average annual rate base in 1975 was approximately $450 million and the effective average annual rate of return was 9.66%.

The transportation contracts with the Company's major gas transmission customers provide that the Company will be paid transportation charges on a cost of service basis which includes operating expenses, income and other taxes and depreciation of its pipeline and plant facilities, together with an annual return on the rate base, which is composed of the depreciated investment in plant and an allowance for working capital. Small volumes of gas are transported for other customers on a tariff basis. The rates, tolls and charges set by the Company are subject to Provincial regulation. Financing costs, interest on debt and dividends on preferred and common shares are payable from the annual return.

Common Shares

At December 31, 1975, there was outstanding 21.5 million Class "A" common shares and 1,699 Class "B" common shares. The Class "A" common shares are owned by 23,400 shareholders, of whom 15,000 or 64% were registered in Alberta.

ALBERTA GAS TRUNK LINE

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31	
	1975	1974
Revenue:		
Operating		
Gas transmission (Notes 1 and 2)	$105,854,000	$ 88,543,000
Manufacturing	20,739,000	—
Gas sales and services	13,823,000	1,317,000
	140,416,000	89,860,000
Other income		
Equity in earnings of affiliated companies	1,993,000	135,000
Allowance for funds used during construction	4,030,000	1,228,000
Other	3,744,000	1,255,000
	150,183,000	92,478,000
Costs and expenses:		
Cost of sales and operating expenses		
Gas transmission	36,966,000	30,377,000
Manufacturing	17,746,000	—
Gas sales and services	10,641,000	528,000
	65,353,000	30,905,000
Depreciation and depletion	20,861,000	13,112,000
Interest and expense on long term debt	26,957,000	23,562,000
Minority interest of others in earnings of subsidiaries	415,000	—
Other	1,359,000	768,000
	114,945,000	68,347,000
Income before income taxes	35,238,000	24,131,000
Income taxes (Note 7)**:**		
Current	944,000	—
Deferred	8,244,000	6,321,000
	9,188,000	6,321,000
Net income (Notes 1, 2 and 7)	$ 26,050,000	$17,810,000
Earnings per common share:		
Basic	$1.08	$0.85
Fully diluted	$1.04	$0.83

See accompanying summary of accounting policies and notes

ALBERTA GAS TRUNK LINE

CONSOLIDATED BALANCE SHEET

Assets

	December 31 1975	1974
Plant, property and equipment:		
Gas transmission plant (Note 1)		
In service	$573,895,000	$545,653,000
Under construction	91,316,000	19,755,000
Manufacturing facilities	6,136,000	——
Natural gas properties	8,147,000	12,888,000
Other	515,000	152,000
	680,009,000	578,448,000
Less accumulated depreciation and depletion	121,537,000	100,909,000
	558,472,000	477,539,000
Investments and advances:		
Affiliated companies (Note 3)	13,277,000	5,816,000
Other	1,510,000	784,000
	14,787,000	6,600,000
Current assets:		
Cash and short term deposits	4,082,000	23,431,000
Accounts receivable	32,488,000	9,485,000
Inventories	20,536,000	4,083,000
Prepaid expenses	1,276,000	1,100,000
	58,382,000	38,099,000
Deferred costs:		
Unamortized debt discount and expense	5,444,000	4,667,000
Deferred charges (Note 4)	20,833,000	7,768,000
	26,277,000	12,435,000
	$657,918,000	$534,673,000

On behalf of the Board:

S.R. Blair, Director

W. J. Deyell, Director

See accompanying summary of accounting policies and notes

Liabilities

	December 31	
	1975	1974
Shareholders' equity:		
Capital (Notes 5, 9 and 10)		
Preferred shares of the par value of $100 each		
Authorized - 2,000,000 shares		
Issued - 4-3/4% cumulative redeemable series C		
181,775 shares (1974 - 196,256)	$ 18,178,000	$ 19,626,000
5-3/8% cumulative redeemable convertible series D		
31,096 shares (1974 - 33,564)	3,110,000	3,356,000
Preferred shares of the par value of $25 each		
Authorized - 2,000,000 shares		
Issued - 7-3/4% cumulative redeemable		
965,001 shares (1974 - 1,000,000)	24,125,000	25,000,000
Class "A" common shares of the par value of $1.25 each		
Authorized - 32,000,000 shares		
Issued - 21,483,351 shares (1974 - 21,087,296)	26,854,000	26,359,000
Class "B" common shares of the par value of $5 each		
Authorized - 2,003 shares		
Issued - 1,699 shares	9,000	9,000
	72,276,000	74,350,000
Contributed surplus	80,897,000	76,881,000
Reinvested earnings	54,914,000	42,941,000
	208,087,000	194,172,000
Minority interest in subsidiary companies	446,000	6,000
Long term debt (Note 6)	377,369,000	305,370,000
Current liabilities:		
Notes payable	—	1,140,000
Accounts payable	25,173,000	3,994,000
Dividends payable	3,519,000	3,505,000
Interest accrued on long term debt	6,746,000	4,273,000
Long term debt due within one year	16,330,000	10,008,000
	51,768,000	22,920,000
Deferred income taxes (Note 7)	20,248,000	12,205,000
Contingency (Note 3)		
	$657,918,000	$534,673,000

ALBERTA GAS TRUNK LINE

CONSOLIDATED STATEMENT OF REINVESTED EARNINGS

	Year Ended December 31 1975	1974
Balance at beginning of year	$42,941,000	$36,878,000
Net income for the year	26,050,000	17,810,000
	68,991,000	54,688,000
Less dividends paid or payable:		
Preferred shares	2,940,000	3,223,000
Common shares	11,137,000	8,524,000
	14,077,000	11,747,000
Balance at end of year	$54,914,000	$42,941,000

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

	Year Ended December 31 1975	1974
Balance at beginning of year	$76,881,000	$45,525,000
Premium on issue of common stock (Note 5)	3,369,000	32,954,000
Gain on purchase of preferred shares for cancellation (Note 5)	719,000	499,000
Capital stock issue expenses written off	(72,000)	(2,097,000)
Balance at end of year	$80,897,000	$76,881,000

See accompanying summary of accounting policies and notes

alberta gas trunk line

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31	
	1975	1974
Source of funds:		
Operations	$ 53,945,000	$ 37,580,000
Common shares	3,864,000	38,270,000
Less common shares issued on conversion of		
Preferred shares	(246,000)	(6,241,000)
Debentures	(3,499,000)	(450,000)
Preferred shares	——	25,000,000
Long term debt	93,076,000	12,280,000
Sale of natural gas properties	6,431,000	——
Other	25,000	——
	$153,596,000	$106,439,000
Use of funds:		
Plant, property and equipment		
Gas transmission plant	$100,112,000	$ 31,367,000
Manufacturing facilities	6,136,000	——
Natural gas properties	1,757,000	12,888,000
Other	301,000	——
	108,306,000	44,255,000
Dividends	14,077,000	11,747,000
Investments and advances	6,194,000	2,625,000
Deferred charges		
Mackenzie Delta gas transmission project	5,512,000	873,000
Other	7,553,000	2,802,000
Cost of issuing securities	1,337,000	2,097,000
Retirement of long term debt	17,578,000	21,573,000
Purchase of preferred shares for cancellation	1,604,000	825,000
Working capital increase (decrease)	(8,565,000)	19,642,000
	$153,596,000	$106,439,000

See accompanying summary of accounting policies and notes

ALBERTA GAS TRUNK LINE

SUMMARY OF ACCOUNTING POLICIES

December 31, 1975

The principal accounting policies of The Alberta Gas Trunk Line Company Limited and its subsidiaries are summarized as follows:

Principles of consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries: principally A.G. Industries International, Inc., Algas Engineering Services Ltd., Algas Resources Ltd., Algas Mineral Enterprises Ltd., The Alberta Gas Ethylene Company Ltd., The Alberta Gas Trunk Line (Canada) Limited (all 100% owned), Foothills Pipe Lines Ltd. (80% owned), Grove Valve and Regulator Company (75% owned) and Pan-Alberta Gas Ltd. (50.8% owned). The accounts of United States subsidiaries have been translated into Canadian dollars on the basis that $1 U.S. equals $1 Canadian.

Plant, property and equipment

Plant, property and equipment is carried at cost.

An allowance for funds used during construction is charged to gas plant under construction at a rate equivalent to the annual rate of return.

Depreciation of gas transmission plant is provided in an amount equal to depreciation included in the transportation charges at a composite rate which approximates 4% per annum on a straight-line basis (2 1/2% at December 31, 1974).

Manufacturing facilities and other plant, property and equipment are depreciated on a straight-line basis at rates varying from 5% to 20%, which rates are designed to write these assets off over their estimated useful lives.

The companies follow the full cost method of accounting wherein all costs relative to the exploration and development of natural gas properties, whether productive or non-productive, are capitalized and depleted on the composite unit of production method based on estimated proven reserves.

Investments and advances

The Company accounts for its investment in three affiliated companies, Alberta Gas Chemicals Ltd. (50% owned), Steel Alberta Ltd. (50% owned) and International Portable Pipe Mills Ltd. (47.8% owned) on the equity basis. The Company's share of their undistributed earnings is included in equity in earnings of affiliated companies.

Other investments are carried at cost.

Inventories

Manufacturing inventory is carried at the lower of cost and net realizable value and the inventory of materials and supplies is carried at cost.

Unamortized debt discount and expense

These amounts are being amortized over the terms of the respective issues.

Deferred charges

Costs relating to Mackenzie Delta gas transmission project, Alberta Gas Ethylene and other projects which may benefit future periods are being deferred pending completion and evaluation of the projects. Deferred charges applicable to projects which have been completed and evaluated are being amortized over periods of up to six years.

License agreements and patents are being amortized over a period of eight years.

Long term debt

Because short term borrowings are customarily repaid from the proceeds of long term financing, the Company follows the policy of including in long term debt those borrowings for which financing arrangements have been completed.

Long term lease obligations which relate to transactions which are similar in nature to a purchase have been capitalized and included in long term debt.

Income taxes

The provision for income taxes includes income taxes related to gas transmission income only to the extent they are included in allowable costs of service under transportation contracts. The companies have adopted the tax allocation basis of recording income taxes on income from all operations other than gas transmission.

Earnings per common share

Earnings per common share are calculated using the weighted average number of shares outstanding during the year. The calculation of earnings per common share on a fully diluted basis assumes conversion of all securities and exercise of all stock options which would have a dilutive effect on earnings per share.

ALBERTA GAS TRUNK LINE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1975

1. Gas transmission plant

Gas plant in service consists primarily of facilities for the transmission of gas owned by TransCanada PipeLines Limited, Alberta and Southern Gas Co. Ltd., Westcoast Transmission Company Limited, Westcoast Transmission Company (Alberta) Ltd., Consolidated Natural Gas Limited and Pan-Alberta Gas Ltd.

The transportation contracts with the above-named owners provide that the Company will be paid transportation charges on a cost of service basis which includes operating expenses, income and other taxes (see Note 7) and depreciation of its facilities together with an annual return on its investment (see Note 2).

2. Rate of return

The Company's rate of return included in its transportation charges was increased from 9% to 9 1/2% effective January 1, 1975 and to 10 3/8% effective November 1, 1975.

3. Investments and advances - affiliated companies

	December 31	
	1975	1974
Alberta Gas Chemicals Ltd.	$ 5,523,000	$4,733,000
Steel Alberta Ltd.	6,607,000	——
International Portable Pipe Mills Ltd.	1,147,000	1,083,000
	$ 13,277,000	$5,816,000

Alberta Gas Chemicals Ltd. is constructing and will own and operate two methanol plants at Medicine Hat, Alberta, estimated to cost $48,000,000 when completed, and has arranged bank financing amounting to $34,000,000, of which $14,700,000 is jointly and severally guaranteed by the Company and the other 50% shareholder. Initial methanol production from the first plant commenced in February, 1975, and it is expected that the second plant will commence production early in 1976.

Pursuant to arrangements entered into in late 1974, the Company completed in 1975 the acquisition of a 50% interest in Steel Alberta Ltd. The other 50% is owned by Alberta Energy Company Ltd. Effective December 18, 1974, Steel Alberta Ltd. purchased 938,400 (20.1%) of the issued common shares of Interprovincial Steel and Pipe Corporation Ltd. (IPSCO) from the Province of Alberta at a price of $11.41 per share. Steel Alberta Ltd. employs the equity method of accounting for its investment in IPSCO.

4. Deferred charges

	December 31	
	1975	1974
Mackenzie Delta gas transmission project	$ 8,287,000	$2,775,000
Alberta Gas Ethylene project	6,410,000	2,191,000
License agreements and patents	2,617,000	——
Other	3,519,000	2,802,000
	$20,833,000	$7,768,000

5. Capital

The Company is required to set aside on its books as Purchase Funds $2,175,000 annually or such lesser amount as would increase the Cumulative Funds to $4,350,000 for the purchase for cancellation, if and when available, of its 4-3/4% Cumulative Redeemable Preferred Shares Series C and 5-3/8% Cumulative Redeemable Convertible Preferred Shares Series D, at a price not in excess of $100 plus costs of purchase and in the case of its 7-3/4% Cumulative Redeemable Preferred Shares, at a price not in excess of $25 plus accrued and unpaid dividends and costs of purchase.

The Preferred Shares Series C are redeemable at $103 per share on or before May 15, 1980, the Preferred Shares Series D at $106 per share on or before May 15, 1980, and the 7-3/4% Preferred Shares at $27 per share on or before May 15, 1979, and at reducing amounts after those dates.

Class "A" common shares were issued during the year as follows:

	Shares	Consideration
On conversion of 5-3/8% Preferred Shares Series D	27,734	$ 246,000
On conversion of 7-1/2% Sinking Fund Debentures, Series 1	355,521	3,499,000
On exercise of options granted to officers and employees	12,800	119,000
	396,055	$3,864,000

Of the total consideration received $495,000 was credited to share capital and $3,369,000 to contributed surplus.

Class "A" common shares were reserved at December 31, 1975 as follows:

	Shares
For conversion of the 5-3/8% Cumulative Redeemable Convertible Preferred Shares Series D until July 15, 1980, on a conversion basis of 11.20 common shares for each preferred share.	348,934
For conversion of the 7-1/2% Convertible Sinking Fund Debentures, Series 1 until July 15, 1982, on a conversion basis of 101.61 common shares for each $1,000 principal amount of Series 1 Debentures.	2,773,356
Under stock option plans, options are outstanding to officers and employees to purchase 292,350 common shares (at prices ranging from $9.375 to $12.00 per share exercisable in annual instalments on a cumulative basis from 1976 to 1980) and 91,050 common shares remain reserved but unallocated.	383,400
	3,505,690

6. Long term debt

	Maturity	December 31 1975	1974
First Mortgage Bonds			
5-1/4% Series A	1981	$ 12,145,000	$ 13,405,000
5-3/4% Series B	1981	29,659,000	33,493,000
(1975 - $29,659,000 U.S.)			
(1974 - $33,493,000 U.S.)			
5-1/2% Series C	1985	11,970,000	13,010,000
8-3/4% Series D	1989	56,668,000	58,815,000
(1975 - $52,800,000 U.S.)			
(1974 - $54,800,000 U.S.)			
Secured Debentures			
6-1/2% Series A	1981	11,160,000	11,700,000
5-3/4% Series B	1985	20,708,000	21,527,000
Unsecured Debentures			
7-1/2% Series 1 (Convertible)	1990	27,294,000	30,793,000
9-3/4% Series 2	1990	19,124,000	19,400,000
9-1/4% Series 3	1990	17,205,000	17,440,000
8% Series 4	1991	48,260,000	48,885,000
8-1/8% Series 5	1992	34,150,000	34,630,000
11-3/8% Series 6	1995	60,000,000	—
Bank Loans		30,587,000	11,916,000
Other Loans		9,570,000	364,000
Long Term Lease Obligations		5,199,000	—
		393,699,000	315,378,000
Less instalments due within one year shown as current liability		16,330,000	10,008,000
		$377,369,000	$305,370,000

The First Mortgage Bonds are secured by a fixed and specific mortgage, pledge and charge and floating charge on the assets of the Company. The Secured Debentures are secured in the same manner, subject to the prior charge of the First Mortgage Bonds.

The First Mortgage Bonds, Series B have been translated to Canadian dollars at par. The Company will receive under its transportation contract with Alberta and Southern Gas Co. Ltd. and Westcoast Transmission Company Limited sufficient United States dollars to discharge its future principal and interest payments in connection with these bonds.

The First Mortgage Bonds, Series D have been translated to Canadian dollars on the basis that one United States dollar is equal to 1.07325 Canadian dollars, being the average rate at which the entire issue was converted into Canadian dollars. TransCanada PipeLines Limited and Alberta and Southern Gas Co. Ltd. have agreed that losses or gains experienced by the Company in purchasing United States dollars to meet principal and interest payments of these bonds at rates above or below the rates at which the entire issue was converted into Canadian dollars will be for their account.

The bank loans at December 31, 1975 are secured by natural gas properties as to $8,402,000, shares of a subsidiary as to $10,000,000 and manufacturing inventories, facilities and accounts receivable as to $7,085,000 and mature by agreement to 1985. The interest rate will vary during the term of the loans and at December 31, 1975 was approximately 10%.

Sinking funds and repayment requirements in respect of long term debt for the years 1977 to 1980 are: 1977 - $18,392,000; 1978 - $18,873,000; 1979 - $20,031,000; 1980 - $20,058,000.

7. Income taxes

For income tax purposes the Company claims capital cost allowances and other deductions in excess of the related amounts charged against income in the accounts and accordingly, no liability for Canadian income taxes exists at December 31, 1975. The provision for income taxes in 1975 includes $1,404,000 related to manufacturing operations in the United States.

Commencing January 1, 1973 the Company arranged with certain of its customers to include in its transportation charges to those customers a portion of the income taxes which have been deferred to future years and has adopted a policy of providing for income tax expense in amounts equal to the income taxes included in such charges. Because income taxes associated with the Company's transportation operations are a component of its transportation charges (see Note 1), the payment or deferral of income taxes does not affect net income.

If the tax allocation basis of accounting under which income tax expense is based on reported income had been followed in respect of all gas transportation customers in the current and prior years, the cumulative amount of the deferred tax credits would have been approximately $87,300,000 to December 31, 1975, of which $15,800,000 is applicable to 1975 and $12,500,000 to 1974.

8. Remuneration of directors and senior officers

The aggregate direct remuneration paid during the year by the Company and its subsidiaries to its directors was $72,400 and to its officers was $452,000.

9. Anti-inflation program

Effective October 14, 1975 the federal government passed the Anti-Inflation Act and subsequently issued Regulations which establish guidelines relative to increases in prices and profit margins, employee compensation and shareholder dividends. The Act is scheduled to be in force until December 31, 1978. The Company's rates, tolls and charges are subject to Provincial regulation and the extent to which the other guidelines under the Act may affect the Company is not entirely known. However, in the opinion of management the Company will earn a rate of return sufficient to assure its continued viability and economic strength.

10. Subsequent events

On January 12, 1976 the Company increased the authorized class of 2,000,000 preferred shares of the par value of $25 each to 4,000,000 preferred shares of the par value of $25 each and designated 1,600,000 shares thereof as 9-3/4% Cumulative Redeemable Preferred Shares.

These latter shares were issued and sold pursuant to an Underwriting Agreement dated January 12, 1976 for $40,000,000 cash.

Auditors' Report

To the Shareholders of
The Alberta Gas Trunk Line Company Limited

We have examined the consolidated balance sheet of The Alberta Gas Trunk Line Company Limited as at December 31, 1975 and the consolidated statements of income, reinvested earnings, contributed surplus and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company as at December 31, 1975 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Calgary, Canada
February 11, 1976

Chartered Accountants

Alberta Gas Trunk Line

Ten Year Review

FINANCIAL

(in thousands of dollars).

	1975	1974
Operating revenue	$ 140,416	89,860
Equity in net income of affiliates	$ 1,993	135
Other income	$ 7,774	2,483
Costs and expenses	$ 87,988	44,785
Interest and expense on long term debt	$ 26,957	23,562
Income before taxes	$ 35,238	24,131
Income taxes	$ 9,188	6,321
Net income	$ 26,050	17,810
Dividends on preferred shares	$ 2,940	3,021
Net income applicable to common shares	$ 23,110	14,789
Net income per common share		
Basic	$ 1.08	0.85
Fully diluted	$ 1.04	0.83
Dividends paid per common share	$ 0.52	0.44½
Average common shares outstanding during year (thousands)	21,344	17,371
Working capital (deficiency) at year end	$ 6,614	15,179
Additions to plant, property and equipment	$ 108,306	44,255
Investment in plant, property and equipment (cost)	$ 680,009	578,448
Investment in plant, property and equipment (net)	$ 558,472	477,539
Average rate base	$ 449,067	438,411
Average rate of return	9.66%	9.00%
Long term debt (less due within one year)	$ 377,369	305,370
Shareholders' equity		
Preferred shares	$ 45,413	47,982
Common shares	$ 162,674	146,190

STATISTICAL

	1975	1974
Shareholders and employees		
Number of preferred shareholders	6,894	7,195
Number of common shareholders	23,508	23,184
Number of employees	995	892

GAS TRANSMISSION OPERATIONS

	1975	1974
Miles of pipeline in system	4,728	4,313
Compression horsepower	449,417	427,867
Total system receipts (MMcf)	1,797,057	1,744,154
Maximum day receipts (MMcf)	5,692	5,566
Average day receipts (MMcf)	4,923	4,779

1973	1972	1971	1970	1969	1968	1967	1966
78,715	64,666	56,351	45,469	31,930	27,929	26,309	24,976
——	——	——	——	——	——	——	——
2,157	3,326	1,699	2,488	2,519	663	469	424
35,725	31,448	27,659	22,582	16,732	13,909	12,205	10,823
24,395	22,477	18,992	15,393	7,897	7,733	7,993	8,239
20,752	14,067	11,399	9,982	9,820	6,950	6,580	6,338
5,884	——	——	——	——	——	——	——
14,868	14,067	11,399	9,982	9,820	6,950	6,580	6,338
1,524	1,611	1,826	2,143	2,280	1,630	1,306	1,306
13,344	12,456	9,573	7,839	7,540	5,320	5,274	5,032
0.79	0.75	0.66	0.59	0.62	0.49	0.47	0.45
0.77	0.74	0.64	0.57	0.60	—	—	—
0.42	0.39¾	0.37½	0.37½	0.37½	0.35¼	0.30¾	0.30
16,793	16,530	14,584	13,368	12,224	11,208	11,200	11,168
(4,663)	2,716	5,590	(5,696)	(5,864)	(5,078)	(3,570)	(2,637)
26,804	44,604	60,892	82,808	68,251	23,132	11,309	7,703
535,009	507,903	463,761	404,003	321,611	254,046	231,155	223,833
446,396	432,000	398,622	348,384	274,615	214,154	197,030	191,443
416,167	386,000	355,169	294,766	212,550	197,800	190,293	188,702
9.00%	8.75%	8.42%	8.13%	8.00%	7.50%	7.50%	7.50%
315,113	315,329	292,013	251,316	176,980	132,024	138,684	135,973
30,547	32,142	33,888	41,607	44,548	46,475	27,500	27,500
103,455	95,694	86,508	54,331	49,428	33,808	30,420	28,638
7,977	8,289	8,833	10,385	10,781	11,087	3,172	3,254
22,148	21,374	22,277	21,838	22,543	23,452	24,833	26,007
762	781	701	577	442	322	301	290
4,113	4,030	3,493	3,246	2,778	2,198	2,094	2,003
420,535	365,635	355,955	315,945	209,125	60,015	60,015	43,185
,720,637	1,595,465	1,420,524	1,259,337	1,047,780	873,254	740,905	678,180
5,573	5,131	4,567	4,337	3,892	3,094	2,757	2,242
4,714	4,371	3,892	3,450	2,870	2,392	2,029	1,858

OFFICERS

H. J. Sanders Pearson
Chairman of the Board

S. Robert Blair
President and Chief Executive Officer

Robert L. Pierce, QC
Executive Vice President and Secretary

William J. Deyell
Senior Vice President

Robin J. Abercrombie
Vice President

Douglas R. Hagerman, F.C.A.
Vice President and Controller

James D. Kadlec
Vice President

Donald G. Olafson
Vice President

James Shutiak
Treasurer

Dianne I. Narvik
Assistant Secretary and
Assistant to the President

COMPANY LOCATIONS:

Head Office:

2800 Bow Valley Square 2
205 - 5 Avenue S.W.
P.O. Box 2535
Calgary, AB 231-9100
T2P 2N6

Other Calgary Offices:

Calgary Service Centre
7210 Blackfoot Trail S.E.
Calgary, AB 252-5414
T2H 1M5

Works Department
2611 - 58 Avenue S.E.
Calgary, AB 272-2445
T2C 0B4

(for complete information on department locations telephone (403) 231-9100

Edmonton Offices:

11th Floor, Petroleum Plaza
9945 - 108 Street
Edmonton, AB 426-0766
T5K 2G6

Edmonton Service Centre
15810 - 114 Avenue
P.O. Box 3240, Station 'D'
Edmonton, AB 452-5723
T5L 4J1

District Offices:

District No. 1 Headquarters
Calgary Service Centre
252-5414

District No. Headquarters
P.O. Box 819
Brooks, AB 362-2838
T0J 0J0

District No. 3 Headquarters
P.O. Box 1239
Edson, AB 723-3371
T0E 0P0

District No. 4 Headquarters
P.O. Box 1650
Vegreville, AB 632-3744
T0B 4L0

Offices of Subsidiaries and Affiliates:

Edmonton office:

Alberta Gas Chemicals Ltd.
400 - 11456 Jasper Avenue
Edmonton, AB 482-6361
T5K 0M1

Alberta Gas Chemicals Ltd. (Plant)
P.O. Box 757
Medicine Hat, AB 527-8141
T1A 7G7

The Alberta Gas Ethylene Company Ltd.
2200 Bow Valley Square 2
205 - 5 Avenue S.W.
Box 9150
Calgary, AB 263-8130
T2P 2W4

Algas Mineral Enterprises
400 Bow Valley Square 2
205 - 5 Avenue S.W.
P.O. Box 2870
Calgary, AB 231-9640
T2P 2M7

Algas Resources Ltd.
450 Bow Valley Square 2
205 - 5 Avenue S.W.
Box 9294
Calgary, AB 231-9683
T2P 2W5

Foothills Pipe Lines Ltd.
1600 Bow Valley Square 2
205 - 5 Avenue S.W.
Box 9083
Calgary, AB 265-8100
T2P 2W4

Grove Valve and Regulator Company
6529 Hollis Street
Oakland, Ca. (415) 655-7700
94608

Pan-Alberta Gas Ltd.
350 Bow Valley Square 1
202 - 6th Avenue, S.W.
Calgary, AB 265-1763
T2P 2L8

International Portable Pipe Mills Ltd.
1960 DAON Building
444 - 5 Avenue S.W.
P.O. Box 1760
Calgary, AB 265-4297
T2P 2L8

Solicitors
Howard, Dixon, Mackie, Forsyth.

Auditors
Clarkson, Gordon & Co.

Transfer Agents and Registrars
PREFERRED SHARES
Crown Trust Company
Montreal, Toronto, Winnipeg, Calgary and Vancouver
Canada Permanent Trust Company as agent for Crown Trust Company in Edmonton and Regina

CLASS "A" COMMON SHARES
National Trust Company, Limited
Montreal, Toronto, Winnipeg, Calgary, Edmonton and Vancouver
Canada Permanent Trust Company as agent for National Trust Company, Limited in Regina

CLASS "B" COMMON SHARES
National Trust Company, Limited
Calgary

Stock Exchange Listings
Alberta Stock Exchange
Toronto Stock Exchange

Stock Exchange Listings
CLASS "A" COMMON SHARES
Alberta Stock Exchange
Montreal Stock Exchange
Toronto Stock Exchange

PREFERRED SHARES
Alberta Stock Exchange
Toronto Stock Exchange

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